Overview of the Video Marketplace

March 21, 2016
Video Marketplace Workshop
FCC Headquarter

Welcome

- This is the first of two FCC workshops exploring the evolving video marketplace
- Today's workshop will evaluate marketplace trends and projections and the challenges faced by multichannel video programming distributors (MVPDs) and online video distributors (OVDs)

The Changing Video Landscape

- How is the video marketplace changing?
- What are the long-term impacts of online video on traditional MVPD offerings?
  - Analysts and observers differ whether OVD services are complementary to MVPD services or whether long-term trend is towards OVD substitution
- What issues/challenges will help shape the future of the video marketplace and what role is there for the FCC to promote competition, diversity, consumer choice, and lower prices?

Marketplace Trends/Projections

- The following sets forth observed data, trends, and projections over the past few years, including data relied on by the Commission in its Video Competition Reports
  - Full-year 2015 data is not yet available in some instances

Shifts in Viewing Habits

- Traditional TV viewing still dominates, but is on the decline
  - Household TV tuning averaged 59 hrs and 2 mins per week in 2014
  - Down from 60 hrs and 4 mins in 2013; lowest average since 2010
- Viewing of online content is on the rise
  - Weekly online video viewing for average viewer increased 36% in 2014
    - 50 minutes per week in 2013; 68 minutes per week in 2014
- Millennials watch the most online video
  - Average viewer watched 68 minutes per week of online video
  - Adults 18-35 averaged 100 minutes per week

Source: Nielsen

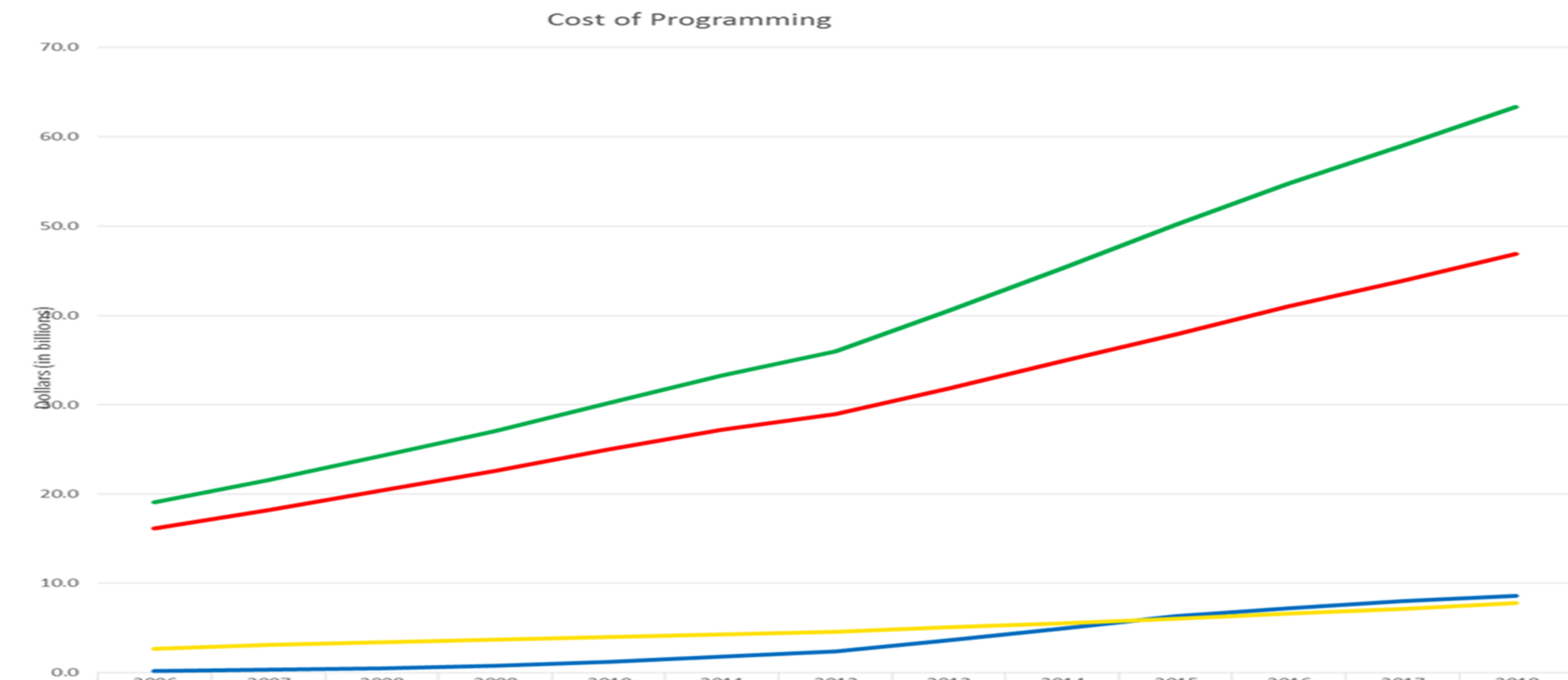
Declines in MVPD Subscribership

- After years of sustained growth, total MVPD subscribership fell in 2013 (142K) and 2014 (176K)
  - 101.7 million subscribers in 2013; 101.6 million subscribers in 2014
  - Downward trend expected to increase in 2015
- Loss of subscribers has not resulted in loss of revenue
  - From 2013 to 2014, cable revenue increased 1.3% and DBS revenue increased 5.2%
    - Projected increases in 2015: 1.1% for cable; 0.8% for DBS
  - Annual rate increases offset subscriber loss, but margins fell due to increased costs, particularly programming costs (next slide)

Source: SNL Kagan

Growth in MVPD Programming Costs

- From 2006-2015, MVPD total programming costs increased 163 percent; predicted to increase at least through 2018 – $19.1 billion in 2006; $54.8 billion in 2015



	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Retransmission Consent	0.2	0.3	0.5	0.8	1.2	1.8	2.4	3.6	4.9	6.3	7.2	8.0	8.6
Basic Cable	16.2	18.2	20.4	22.6	25.0	27.2	29.0	31.8	34.9	37.9	41.0	43.9	46.9
RSN	2.7	3.1	3.4	3.7	4.0	4.3	4.6	5.1	5.5	6.0	6.6	7.1	7.8
TOTAL	19.1	21.6	24.3	27.1	30.2	33.3	36.0	40.5	45.3	50.2	54.8	59.0	63.3

Year

Source: SNL Kagan

Multiplatform Growth

- OVD content generally available on computers and mobile devices
- Some MVPDs providing online access to content for subscribers — TV Everywhere
    - Viewing time by existing users of TV Everywhere increased by 63 percent in 2014
- In 2014, U.S. households with high-speed Internet connections (90.9 million) had an average of 7.3 Internet connected devices
    - E.g., streaming media players, connected TV sets and Blu-ray players, and tablets
- Half of U.S. TV households receive some TV programming through the Internet

Sources: CEA; SNL Kagan; Sandvine

OVD Growth

- Continued growth in OVD subscribership
  - Netflix ended 2015 with 43.4 million U.S. subscribers to streaming service; up from 37.7 million in 2014 and 31.7 million in 2013
  - Hulu increased subscribership by 35% in 2014 to 6.8 million; reached 9 million subscribers in early 2015
- Recent new entry in OVD marketplace
  - E.g., HBO Now, Showtime, NOGGIN
- Estimated OVD revenues increased from $5.4 billion in 2013 to $7.1 billion in 2014
  - Projected increase to $8.5 billion in 2015

Over-the-Air (OTA) and OVD

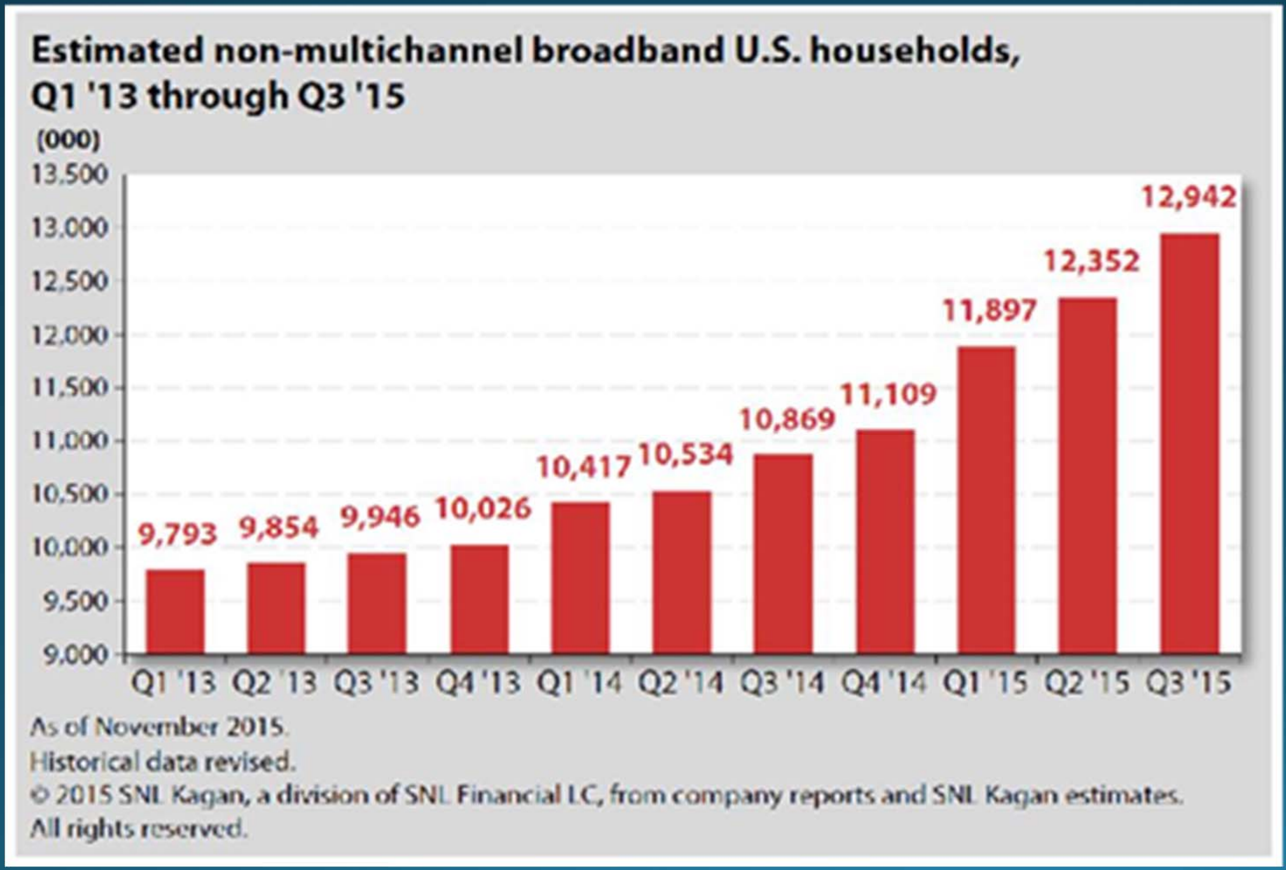
- There were approximately 12.4 million broadcast-only households as of March 2015
  - Up from 11.4 million in January 2014
- 24% of adults do not subscribe to MVPD service
  - 15% cord cutters; 9% cord nevers
  - 64% rely on OTA reception and OVD services to access content

Sources: Nielsen; Pew

Image: http://www.tvtechnology.com/rf-technology/0146/%93cord-cutters%94-turning-to-online-video-and-ota-antennas/236964

Broadband-Only Households

- Continued growth in broadband-only households
  - Estimated 9.8 million in Q1 2013; 13 million by late 2015



Network Demand

- Growth of online video consumption results in significant demand on Internet networks
  - In September 2014, streaming video accounted for 67.53 percent of peak period downstream traffic on North American fixed networks; 39.76 percent of peak period downstream traffic on North American mobile networks

Source: Sandvine

Image: http://www.lovemytool.com/blog/2013/11/streamline-capacity-planning-optimize-bandwidth-by-chris-greer.html

Evolution of OVD Programming

- Original programming is increasingly supplementing video catalogs
  - OVDs such as Netflix, Hulu, and Amazon are continuing to develop original content, delivered directly to subscribers
  - YouTube partners with content creators to form “channels” that provide original content
- Some OVDs are offering linear programming bundles to compete with traditional MVPD offerings
  - E.g., DISH’s SlingTV, Sony Vue, new AT&T/DIRECTV OTT product

Success of OVD Original Programming

- OVD content is quickly gaining recognition
  - In 2015, Netflix received 34 Emmy nominations; Amazon 12

Source: Fortune.com

Image: http://www.indiewire.com/article/2015-emmy-predictions-20150310

Changing the MVPD Bundle

- As OVDs grow in popularity and consumer preferences change, MVPDs adapt
  - Slimmer bundles
  - Internet, OTA television, and OVD content bundles aimed at cord cutters/nevers
  - TV Everywhere/Stream TV
  - Competitive OVD offerings
- Will a la carte follow?

Challenges Facing Distributors or the Marketplace

- The effect of wholesale bundling on programming
- Continued use of retail bundling
- Access to programming by MVPDs and OVDs
- Impact of increased programming costs on new entrants and small entities (MVPDs and OVDs)
- Access to consumers (e.g., delivery/transmission costs; app integration)

On to the Workshop